

29 January 1975

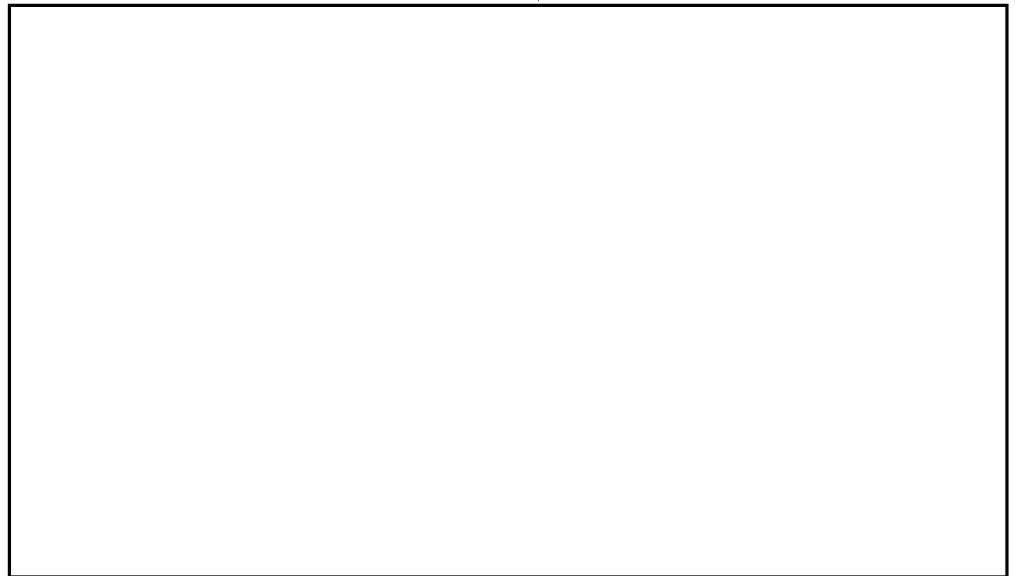
MEMORANDUM FOR: Members of USIB (See Distribution)

SUBJECT : Report of Military Economic Advisory  
Panel on Direct Costing Estimates

1. Attached is a copy of a report submitted to Ed Proctor last summer by the Military Economic Advisory Panel. In light of the concerns expressed at the USIB meeting on 24 January about "direct costing" estimates of Soviet defense spending, it seems useful to bring the report to your attention at this time.

2. The Military Economic Advisory Panel was formed in the spring of 1973 to advise the Deputy Director for Intelligence on the adequacy, validity, and usefulness of his military-economic analysis. The Panel is still in operation. Its members at the time the first annual report was written were:

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3. Briefly, the report's principal conclusions about the direct costing techniques now being used in the Intelligence Community are:

- The Intelligence Community should continue to produce monetary estimates as useful measures of the Soviet defense effort.
- The direct costing methodology is basically sound and informative and should be continued.

4. We recognize that some uncertainty is inherent in direct costing techniques and we devote a continuing research effort to minimizing this uncertainty. We are also pursuing--along with others in the Community--alternative methods of developing estimates of Soviet defense spending. These alternatives offer some promise of providing an independent check on the totals derived from the direct costing methodology. I should point out, however, that these methods are directed toward estimating spending aggregates and will not provide useful details for specific forces or programs.

Acting Director  
Strategic Research

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Attachment:

First Report--Military  
Economic Review Panel,  
dated 1 July 1974